January 26, 1998

George Pohndorf
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Re: Puget Sound Energy's Technical Assistance Group 1/27/98 meeting

Dear George:

I am unable to attend the January 27 meeting of the PSE TAG due to a conflicting meeting in Portland. I would like to offer a few comments to assist you in developing a set of criteria to guide the development of future conservation programs and priorities. Here are my responses to some of your questions.

Which attributes do you believe are most important for PSE to consider in its planning (e.g., resource acquisition, energy efficiency, customer satisfaction, environmental quality, environmental credits, economic development, market transformation, load management, system benefits)?

I believe the priority drivers for using ratepayer funds to implement conservation are the following.

We are capturing conservation that has lower costs than constructing new generation supplies with long-term fuel contracts in place. We should also capture the conservation in specific communities or neighborhoods that provides a lower total cost solution than system improvements such as substation capacity upgrades. It makes economic sense to all parties to minimize the societal costs of the electricity system. Societal costs include the financial costs of system investments such as substation upgrades and new generation resources as well as external costs such as air emissions, or fish and wildlife recovery.

You provided a list of "straw man" conservation attributes. Using a societal cost perspective to guide conservation planning encompasses your following attributes such as resource acquisition, environmental quality, economic development, and, to some extent, system efficiencies. If we do not quantify the value of environmental costs then, in addition to economic drivers, we do conservation to explicitly improve environmental quality and to compensate for degradation the electricity system is causing the environment.

I would classify market transformation programs as a type of conservation activity that has the potential to be the most effective approach for achieving energy savings. It is not the reason we do conservation, but, in the market niches where a strategy can be employed to affect the whole market, then this approach has the potential to effect the greatest long term savings per each dollar invested.

While I do not perceive customer satisfaction as the primary motivator for using ratepayer funds to acquire conservation I acknowledge it as a critical criterion for success. Customer satisfaction plays a key role on a few different levels. At one level, customers, as part of the market chain of any product or service, have to desire or accept an energy efficiency modification to the products or services they purchase. Consumer acceptance of an energy efficient product is comparable to customer satisfaction.

In a broader context, customers have to perceive value in the expenditure of these funds for conservation. If this support is lacking then customers will voice their opposition to these expenditures to their utility representatives, to the Commission (for the investor-owned utilities) and possibly to their state representatives.

Which attributes are less important for PSE to consider in its planning?

I do not consider load management activities as priority conservation projects. While load management programs can reduce the investment necessary to meet peak system demand (and hence reduce system costs), they have little environmental benefit. They are an important part of Least Cost Planning, but are not conservation. They have the ability to reduce utility costs without necessarily reducing revenues. In the context of least cost planning, it may be in the best interests of consumers and the utility for the utility to fund load management programs. I would not expect these funds to come from a limited pool of conservation funds.

Thank you, George. I hope this is helpful. I look forward to an update on how the meeting went.

Sincerely,

Elizabeth C. Klumpp
Energy Policy Specialist